

VESTGRON MINES LIMITED

**ANNUAL
REPORT
1976**

VESTGRON MINES LIMITED

and subsidiary company

Directors

N. AEGIDIUS ANDERSEN

P. J. NOAKES

P. HANSEN

O. E. OWENS

G. H. D. HOBBS

M. K. PICKARD

J. H. SALTER

Officers

O. E. OWENS	President
P. J. NOAKES	Vice President
P. C. STEWART	Secretary
K. S. BENSON	Assistant Secretary
E. E. PEDERSEN	Assistant Secretary
M. A. MADLEY	Treasurer
A. D. MILLER	Comptroller

Head Office

c/o Cominco Ltd.
Con Mine Office
Yellowknife, N.W.T. V0E 1H0

Mailing Address

c/o Cominco Ltd.
200 Granville Square
Vancouver, B.C. V6C 2R2

Transfer Agent and Registrar

MONTREAL TRUST COMPANY,
466 Howe St., Vancouver, B.C. V6C 2A8
15 King St. W., Toronto, Ontario M5H 1B4

Auditors

THORNE RIDDELL & CO.,
Vancouver, B.C.

VESTGRON MINES LIMITED

TO THE SHAREHOLDERS:

Your Directors are pleased to report on the 1976 activities of the Company and its wholly-owned Greenland subsidiary, Greenex A/S (Greenex). In this report 1975 figures are bracketed and weights are in metric measure.

Financial:

Net earnings were \$15,572,000 (\$15,829,000) or \$3.68 (\$3.74) per share. Gross sales were \$49,234,000 (\$50,545,000) from the sale of 172,962 (160,336) tons of zinc concentrate and 34,042 (34,666) tons of lead concentrate. Despite higher prices for lead and an increase in zinc sales volume, earnings were reduced by depressed zinc prices.

During the year, Greenex repaid \$7,641,000 on its term loans, and paid a dividend to Vestgron. The \$5,639,000 proceeds from the dividend, net of withholding tax, was applied against accrued interest, and reduction of part of the principal of the Company's 10% redeemable unsecured income debenture. The balance owing on the term loans and income debenture at the end of 1976 were \$24,201,000 and \$2,938,000 respectively.

Operations:

The concentrator treated 601,800 (590,200) tons of ore, all from the Angel Zone, which assayed 14.7% (15.4%) zinc and 5.2% (4.8%) lead, from which 142,800 (152,500) tons of zinc concentrate and 37,900 (31,800) tons of lead concentrate were produced at costs close to the 1975 level. The major pre-production development program to bring the Cover Zone into production continued as planned.

Concentrates and Inventories:

During the ice free season 140,300 tons of zinc and 36,200 tons of lead concentrate were shipped to European and North American customers.

At year end, inventories were 67,425 (97,600) tons of zinc concentrate and 8,436 (4,600) tons of lead concentrate.

Personnel:

Greenex continued its program of training and developing Danish and Greenlandic personnel for mining, concentration and maintenance positions. To further acquaint

Greenlanders with job opportunities at Marmorilik, familiarization programs were held at several communities along the west coast.

As is quite common in Denmark, junior staff at the mine formed a staff union and negotiated a one-year contract covering the period between March 2, 1976 and March 1, 1977. Labour contracts with other union groups will expire early in 1977.

At its Annual Meeting in June, two employee representatives were appointed to the Greenex Board of Directors in accordance with the laws of Denmark.

Ore Reserves:

Ore reserves at December 31, 1976 were 3,571,751 (3,995,000) tons grading 26 (25) grams of silver, 4.9% (4.9%) lead and 13.9% (14.1%) zinc.

This year's pre-production development of the Cover Zone precluded any exploration east of that zone, such exploration will resume in 1977.

Additions to reserves from extension of the Angel Zone were equivalent to 30% of 1976 production.

Surface Exploration:

Exploration of the Greenex Concession continued. Work was terminated at the lead-zinc showing discovered last year because diamond drilling results showed there was no potential for the development of significant ore tonnage at that site.

A new outcrop of massive sulphide mineralization was located late in the season on a steep cliff of a nearby peninsula. While onset of winter snow and the difficult terrain prevented a full examination, initial observation indicated that drilling is warranted. During this coming summer, studies will be carried out to determine how this can be best accomplished.

Your Directors wish to express their appreciation to the employees of Greenex responsible for the continued satisfactory performance of the Company.

March 2, 1977
Vancouver, B.C.

O. E. Owens
President

VESTGRON MINES LIMITED
and subsidiary company

**CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS
REINVESTED IN THE BUSINESS**
Year ended December 31, 1976

	1976	1975
	(thousands)	
REVENUE		
Sales	\$ 49,234	\$ 50,545
Interest income	348	541
	<hr/> 49,582	<hr/> 51,086
COST AND EXPENSES		
Cost of product sold	18,476	18,316
Distribution and selling	5,940	5,668
General and administrative	1,693	1,998
General mineral exploration	496	124
Long-term debt interest and expense	3,163	4,835
Depreciation and depletion	4,242	4,316
	<hr/> 34,010	<hr/> 35,257
NET EARNINGS	15,572	15,829
Earnings reinvested in the business at beginning of year	25,216	9,387
EARNINGS REINVESTED IN THE BUSINESS AT END OF YEAR	<hr/> \$ 40,788	<hr/> \$ 25,216
Earnings per share	<hr/> \$ 3.68	<hr/> \$ 3.74

VESTGRON MINES LIMITED
and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended December 31, 1976

	1976	1975
	(thousands)	
SOURCE OF FUNDS		
Operations		
Net earnings for the year	\$ 15,572	\$ 15,829
Add:		
Depreciation and depletion	4,242	4,316
Income debenture interest	784	997
	<hr/> 20,598	<hr/> 21,142
Decrease (increase) in working capital	1,810	(368)
	<hr/> \$ 22,408	<hr/> \$ 20,774
APPLICATION OF FUNDS		
Buildings and equipment	\$ 3,323	\$ 2,669
Mining properties and development	916	1,273
Repayment of long-term debt	16,566	14,497
Prepaid taxes (note 3)	1,575	1,011
Other	28	1,324
	<hr/> \$ 22,408	<hr/> \$ 20,774

VESTGRON(Incorporated un
and sub**CONSOLIDATED BALANCE**

	1976	1975
	(thousands)	
CURRENT ASSETS		
Cash and short-term investments	\$ 406	\$ 596
Accounts receivable	10,388	7,842
Inventories (note 2)	18,681	21,221
Prepaid expenses	106	48
	<hr/> 29,581	<hr/> 29,707
FIXED ASSETS		
Buildings and equipment	47,229	43,906
Less accumulated depreciation	10,422	7,103
	<hr/> 36,807	<hr/> 36,803
 Mining properties and development	 14,035	 13,119
Less accumulated depletion	2,903	2,008
	<hr/> 11,132	<hr/> 11,111
	<hr/> 47,939	<hr/> 47,914
 PREPAID TAXES (note 3)	 2,586	 1,011
	<hr/> \$ 80,106	<hr/> \$ 78,632

Approved by the Board:

O. E. OWENS, Director

P. J. NOAKES, Director

MINES LIMITED

under the laws of Canada
a subsidiary company

BALANCE SHEET AT DECEMBER 31, 1976

	1976	1975
	(thousands)	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,071	\$ 5,858
Long-term debt due within one year	9,789	7,318
	<hr/> 14,860	<hr/> 13,176
LONG-TERM DEBT (note 4)	<hr/> 17,350	<hr/> 33,132
SHAREHOLDERS' EQUITY		
Capital		
Authorized		
6,000,000 Common shares of no par value		
Issued and fully paid		
4,227,958 shares	7,108	7,108
Earnings reinvested in the business (note 5)	40,788	25,216
	<hr/> 47,896	<hr/> 32,324
	<hr/> \$ 80,106	<hr/> \$ 78,632

VESTGRON MINES LIMITED

and subsidiary company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements of Vestgron Mines Limited include the accounts of its wholly-owned subsidiary, Greenex A/S, a company incorporated under the laws of Denmark. The difference between the cost of the investment in the subsidiary company and the underlying equity in net assets at the date of acquisition has been allocated to fixed assets on consolidation.

b) Foreign Currency Translation

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at rates of exchange in effect at the end of the year; all other assets and liabilities are translated at rates in effect when the transactions occurred. Revenues and expenses are translated at the average rate for the year except depreciation and depletion which are translated at the rates in effect when the related fixed asset expenditures were made. Commencing in 1976 the resulting exchange difference on translation is included in the earnings for the year. In prior years, gains on translation were deferred while losses were charged against earnings. The effect of this change in accounting policy is that earnings for 1976 have been increased by \$666,268 (\$0.16 per share).

c) Inventories

Inventories of concentrates are valued at the lower of cost (determined on the monthly average method) and net realizable value. Stores and operating supplies are valued at average cost less appropriate allowances for obsolescence.

d) Buildings and Equipment

Buildings and equipment are recorded at cost and depreciated on a straight-line basis related to the estimated life of ore reserves.

e) Mining Properties and Development

Expenditures on general exploration are charged against earnings as incurred. Expenditures on mining properties and development are capitalized and amortized against earnings by charges for depletion based on the estimated life of ore reserves.

2. INVENTORIES

	1976	1975
	(thousands)	
Concentrates	\$ 11,585	\$ 14,196
Stores and materials	7,096	7,025
	<hr/>	<hr/>
	\$ 18,681	\$ 21,221

3. PREPAID TAXES

Under the terms of a Concession Agreement with the Danish Ministry for Greenland dated January 22, 1971, Greenex A/S was granted exemption from payments of taxes until Greenex A/S realized earnings to an amount approximately equivalent to total invested capital. It is expected that Greenex A/S will be subject to taxes during 1977, at which time that company will follow the tax allocation method of accounting. Under this method timing differences, principally when depreciation, depletion and development expenditures recorded in the accounts are different from the amounts claimed for tax purposes, result in taxes being provided for but not currently payable. Any taxes payable will be reduced by withholding taxes paid on dividends from Greenex A/S. Withholding taxes paid to December 31, 1976 amount to \$2,586,000.

4. LONG-TERM DEBT (excluding amounts due

within one year)

1976 1975
(thousands)

Vestgron Mines Limited

10% unsecured income debenture from Cominco Ltd., a shareholder, repayable from income but in any event before December 31, 1987	\$ 2,900	\$ 8,350
Accrued interest thereon	38	227

Greenex A/S

Bank loans payable in U.S. funds (1976 US \$14,400,000) (1975 US \$24,540,000)	\$ 14,412	\$ 24,555
The bank loans bear interest at 1 1/4 % above the London inter-bank rate	<hr/> \$ 17,350	<hr/> \$ 33,132

Payments (except for income debenture) due in 1977 \$9,789,000; 1978 \$7,206,000; 1979 \$7,206,000; 1980 Nil; 1981 Nil.

If translated into Canadian dollars at December 31, 1976 rates of exchange, long-term debt would increase by \$120,480 to \$17,471,000. This change is not necessarily indicative of the amount which will be repaid when the obligations are retired.

5. PAYMENT OF DIVIDENDS

Under the terms of the Income Debenture, dividends cannot be declared or paid until the principal and interest are fully paid.

6. DIRECTORS' AND OFFICERS' REMUNERATION

In 1976 total remuneration of \$9,600 was paid to seven directors. No remuneration was paid to the seven officers as officers; two officers were also directors.

7. ANTI-INFLATION PROGRAMME

In 1975 the Canadian Government passed the Anti-Inflation Act. As the Company's operations are outside Canada, it is only subject to the controls on shareholders' dividends.

8. COMPARATIVE FIGURES

Certain of the 1975 comparative figures have been reclassified to conform with the 1976 presentation.

THORNE
RIDDLELL
& CO.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Vestgron Mines Limited

We have examined the consolidated balance sheet of Vestgron Mines Limited as at December 31, 1976 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of treating foreign exchange differences on translations referred to in note 1 (b) to the financial statements, have been applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 11, 1977

THORNE RIDDELL & CO.,
Chartered Accountants

